

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Experimental Periodicals Co-Palletization
Drop Ship Discounts, 2002

Docket No. MC2002-3

REPLY COMMENTS OF
ALLIANCE OF NONPROFIT MAILERS
AOL TIME WARNER
AMERICAN BUSINESS MEDIA
MAGAZINE PUBLISHERS OF AMERICA, INC.
NATIONAL NEWSPAPER ASSOCIATION
RR DONNELLEY & SONS COMPANY
(December 13, 2002)

As indicated by their signatures on the proposed Stipulation and Agreement filed with the Commission on November 22, 2002, Alliance of Nonprofit Mailers, AOL Time Warner, American Business Media, Magazine Publishers of America, Inc., National Newspaper Association, and RR Donnelley & Sons Company support the experimental mail classification proposed by the United States Postal Service in this docket. Request of the United States Postal Service for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts (Request). In accordance with PRC Order No. 1354 (November 26, 2002), we submit these Reply Comments in response to several issues raised by other participants.

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. ("Valpak") says it neither supports nor opposes the settlement but that "[t]he most important principle that is raised in the instant niche classification is a fairness issue...." Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Comments on proposed Settlement (December 10, 2002) at 3. As the record shows--and the signatory parties have recognized--the niche classification under consideration here meets all of the criteria of Section 3622 and 3623 including the "fairness" standard of those provisions.

We point out that those potentially affected by this experimental mail classification, periodicals mailers large and small, appear satisfied by the fairness of this particular proposal. As the Postal Service notes, “[t]hirteen of the 19 participants have signed the Agreement, including all of the intervenors representing Periodicals mailers.” Comments of the United States Postal Service in Support of Settlement (December 9, 2002) at 3.

The periodicals community supports the proposed settlement because it understands that controlling Postal Service costs for handling periodicals can restrain future rate increases. Reducing the number of periodicals that mailers present in sacks and facilitating the merging of smaller circulation publications, which we are confident this experiment will do, will help achieve this goal.

In connection with this proceeding, MPA surveyed five existing and likely providers of co-palletization services. It asked them to quantify the volume of co-palletized periodicals that they currently generate and how much additional volume they would produce if the experimental classification came to fruition. Responses indicated that co-palletization would increase from 26.6 million pieces per year to nearly 200 million pieces. USPS –T-1, Exhibit B. We believe MPA's survey may underestimate potential new co-palletized volumes and the resulting increased contribution from these volumes. As witness Taufique noted in his testimony, “...I believe that the volume estimates provided in the MPA survey probably capture the ‘Existing Volume,’ but could be conservative in estimating the ‘New Volume.’ To the extent there is additional ‘New Volume,’ the savings from worksharing would exceed the leakage from the discount, resulting in positive contribution.” USPS-T-1 at 15. We agree with his assessment that MPA’s survey methods are much more likely to understate contribution than overstate it.

In its comments, the American Postal Workers Union (APWU) acknowledges that the proposed co-palletization discounts “pass through less than 100 percent of the Postal Service’s calculated cost savings” but contends that “when combined with the existing discounts, in particular those for barcoding where the passthrough rates are well over 100%, the total discounts seem excessive.” Statement of the American Postal Worker Union, AFL-CIO concerning Settlement (December 9, 2002) at 1 (APWU Comments). APWU’s concern is unwarranted.

First, automation (barcoding) discounts are not relevant because co-palletization has no nexus with barcoding. Periodicals are either barcoded or they are not, and whether they are co-palletized has no effect on this. The implementation of this experiment should similarly have no effect on the number of pieces that are barcoded.

Second, APWU states, “[s]everal changes took place to periodical rates during the settlement process for R2001-1. In particular, the per piece dropship discount for pallets, which was added during the negotiations of the settlement, was made without the usual detailed documentation and the usual scrutiny of Postal Service documentation. Consequently, it is unclear what are the true passthroughs and avoided costs associated with the per piece palletization and dropshipping discounts added [during the settlement process of Docket No. R2001-1].” APWU Comments at 1-2. While the dropship pallet discount was added during settlement negotiations in Docket No. R2001-1, the cost basis for that discount was on the record and subject to scrutiny in that docket.

In Docket No. R2001-1, the Postal Rate Commission recommended a 1.5-cent discount for palletized pieces that are destination entered. That discount was based on a passthrough of approximately 70 percent of the 2.2-cent cost difference between handling sacks and handling pallets. Docket No. R2001-1, USPS-LR-J-107, oc01.xls, worksheet “Discounts”. This cost difference was conservatively calculated based only upon activities performed at destination facilities and understates the actual savings since it does not include similar costs saved from avoiding sack handling at origin facilities. The true passthrough from the 1.5-cent discount for destination-entered, palletized pieces is significantly less than 70 percent.

APWU also suggests, incorrectly, that the cost of co-palletizing sacked mail is less for large circulation publications than for small circulation publications. APWU Comments at 1. Periodicals mailed by large and small circulation publications participating in the experiment will be sorted on the same co-palletization equipment and transported on the same trucks. The cost of co-palletization therefore will be similar for all participants in the experiment. The discount would only be available to pieces that would have been in a sack absent co-palletization.

Not only are the discounts justified, we are confident that this experimental mail classification will result in more contribution than estimated by the Postal Service. First, when Taufique developed his cost avoidance estimates, he conservatively assumed that all periodicals that will participate in the experiment are currently entered in Zones 1 and 2. USPS-T-1 at 12. As Taufique noted, if any of the mail shifts from higher zones, the transportation savings will be larger than he estimated. Id. at 15. We are confident that the majority of periodicals that will participate in the experiment are currently entered in higher zones since sacked mail is almost always plant loaded in higher zones.

We agree with the Office of Consumer Advocate that the data collection plan detailed in the record is “particularly significant.” Office of the Consumer Advocate Comments on the Stipulation Agreement (December 9, 2002) at 2. We commend witness Taufique on his efforts to develop a data collection plan that collects the necessary information to fully evaluate this experiment as it proceeds while at the same time not imposing unduly excessive burdens on participants in the experiment. “Before” and “after” data will be collected on containerization, weight, and mail volume enabling the Commission and the Postal Service to perform a thorough analysis of the experiment.

In conclusion, we support this experiment and the proposed Stipulation and Agreement and request the Commission to recommend to the Postal Service implementation of the experimental periodicals co-palletization discount service and other requested changes.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Rule 12 of the rules of practice.

James Pierce Myers

December 13, 2002